

Peyto Oils Ltd.

Annual Report



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Year Ending May 31st, 1975

Peyto Oils Ltd. and Subsidiaries

Peyto Explorations Inc.	100%
Polaris Oil Limited	100%
Polaris Oil Inc.	100%
Polaris Oil (U.K.) Ltd.	100%
Giant Reef Petroleums Limited	66%
Not included in consolidation:	
Enjay Holdings Limited	(40%)
Ensign Oil of Spain Ltd.	(50%)

HEAD OFFICE:

335 Examiner Bldg.
CALGARY, Alberta T2P 1W3
Area Code 403 261-5042, 264-7186

OFFICERS:

R. T. VANDERHAM — President
K. MOORE — Vice President
A. N. McCRUDEN — Secretary

DIRECTORS:

W. WOLODARSKY
R. T. VANDERHAM
A. N. McCRUDEN
CARMEN W. BYLER
JEAN Le REUN

BANKERS:

BANK OF MONTREAL
604 - 8th Ave. S.W.
CALGARY, Alberta T2P 2C9

REGISTRAR AND TRANSFER AGENT:

MONTREAL TRUST COMPANY
522 - 8th Ave. S.W.
CALGARY, Alberta T2P 1E7
15 King St. West
TORONTO, Ontario

AUDITORS:

PEAT, MARWICK, MITCHELL & CO.
2600, 500 - 4th Ave. S.W.
CALGARY, Alberta T2P 2V6

STOCK LISTING:

TORONTO STOCK EXCHANGE

OUR COVER:

"PEYTO LAKE" — located 27 miles north of
Lake Louise on the Banff-Jasper Highway in Banff
National Park. The pale blue color of the lake is a
result of the silt carried in the outwash of Peyto Glacier.
ALBERTA, Canada.

Seven Year Financial & Operating Review

	1975	1974	1973	1972	1971	1970	1969
Total Revenue	\$1,271,000	\$ 672,000	\$ 581,000	\$ 564,000	\$ 305,000	\$ 144,000	\$ 39,000
Cash Flow	800,000	204,000	90,000	204,000	93,000	(24,000)	18,000
Cash Flow/Share	28c	7c	4c	10c	5c	(1c)	2c
Depreciation/Depletion	246,000	226,000	159,000	164,000	88,000	4,000	4,000
Net Income (loss)	183,000	(292,000)	(249,000)	(35,000)	(33,000)	(11,000)	17,000
Net Income (loss)/share	6c	(10c)	(11c)	(2c)	(2c)	(1c)	2c
Total Assets	7,002,000	6,437,000	4,751,000	3,224,000	2,940,000	2,242,000	306,000
Working Capital	2,364,000	2,449,432	634,362	384,000	187,000	738,000	208,000
Long-term Debt	370,000	604,000	632,000	629,000	626,000	—	—
Shares Outstanding	2,831,383	2,831,383	2,431,383	1,953,293	1,753,293	1,753,293	880,000
Shareholder's Equity	5,726,000	5,543,000	3,622,000	2,277,000	1,912,000	1,944,000	294,000
Gross wells drilled	13	20	23	14	7	11	10
Oil/Gas	9	10	11	5	2	1	6
Dry	4	10	12	9	5	10	4
Number of Employees	4	5	5	4	3	3	3

Dear Shareholder:

We are pleased to report to you the results of our seventh year of operations. Financially your company enjoyed a good year with higher prices for oil and gas, and increased production rates accounting for a 75% increase in oil and gas revenue.

The period under review has certainly been one of the most difficult and trying ones for the oil and gas industry. There is no need to elaborate on the industry's difficulties and tribulations. Your daily press has kept you well informed on the action of the Arab oil producing countries, Ottawa's actions relative to wellhead price controls, crude oil export tax, Alberta's increased royalty take, Ottawa's non-deductibility of royalties paid to the Provinces — ad nauseam. Uncertainty still reigns in all facets of our industry since moving from a free market economy to a government controlled one. Pricing of products from crude oil at the wellhead to gasoline at the pump is no longer left to the forces of the free market but is now set by the whims of governments in the Middle East and the Western World. Disastrous results of these policies are of course evident worldwide as governments around the world no longer limit themselves to governing but appoint themselves as garnerers and distributors of wealth.

Corporate planning under these circumstances has become increasingly difficult if not impossible. It is for these reasons that your management during the last 18 months assumed a defensive position, ongoing exploration projects were either curtailed or terminated and new projects limited to a few low risk prospects. The company's considerable working capital was kept liquid and enjoyed a good rate of return due to high interest rates.

Total gross income (after royalties) rose to \$1,271,801 and cash flow increased to \$800,674 or 28c/share. Net earnings increased to 183,000 or 6c/share.

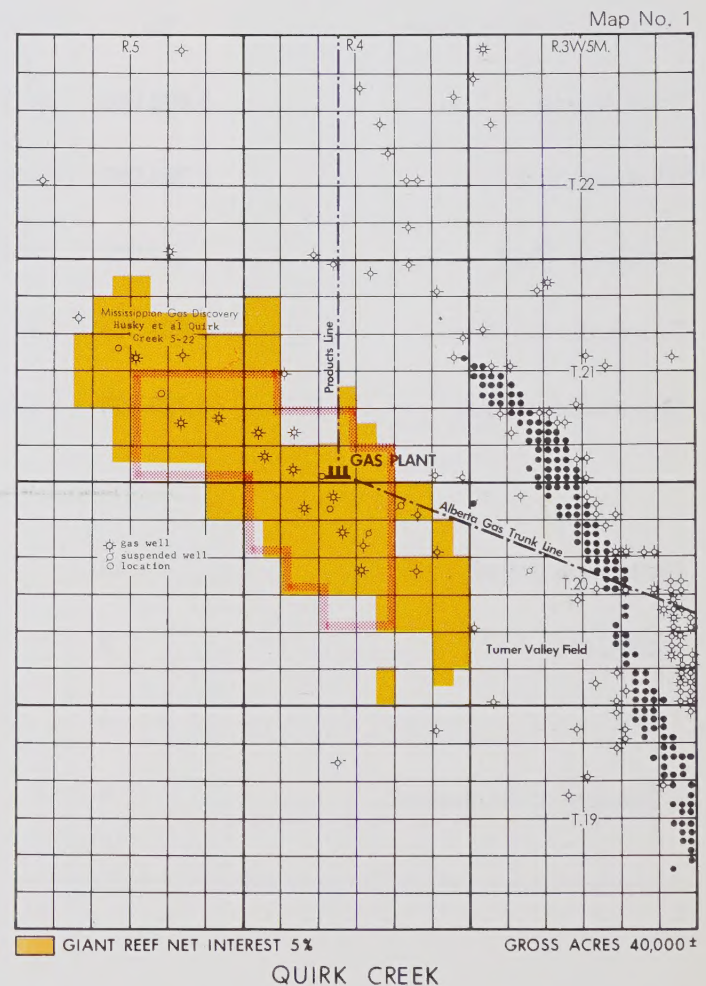
Drilling activity included participation in 13 gross wells resulting in 7 oilwells, 2 gaswells and 4 dry holes. Four wells are being drilled at present.

**EXPLORATION AND DEVELOPMENT
Western Canada — Alberta**

QUIRK CREEK (see map #1)

In the Quirk Creek area both wildcat and development drilling is continuing. On the deeper Mississippian prospects one well was completed as a marginal gaswell in 5-35-20-4-W5 and 2 wells are currently drilling offsetting the original deep discovery in 5-25-21-5-W5. In addition one development well in the shallower Mississippian zone is drilling and one more is scheduled.

It is anticipated that the gas from the deep sheet will be placed on production this fall with the completion of a \$1.5 million gathering system. The existing processing plant has spare capacity and will require only slight modification to process this more sour gas.



Natural gas prices continue to increase and will reach $\pm 95c/Mcf$ in November.

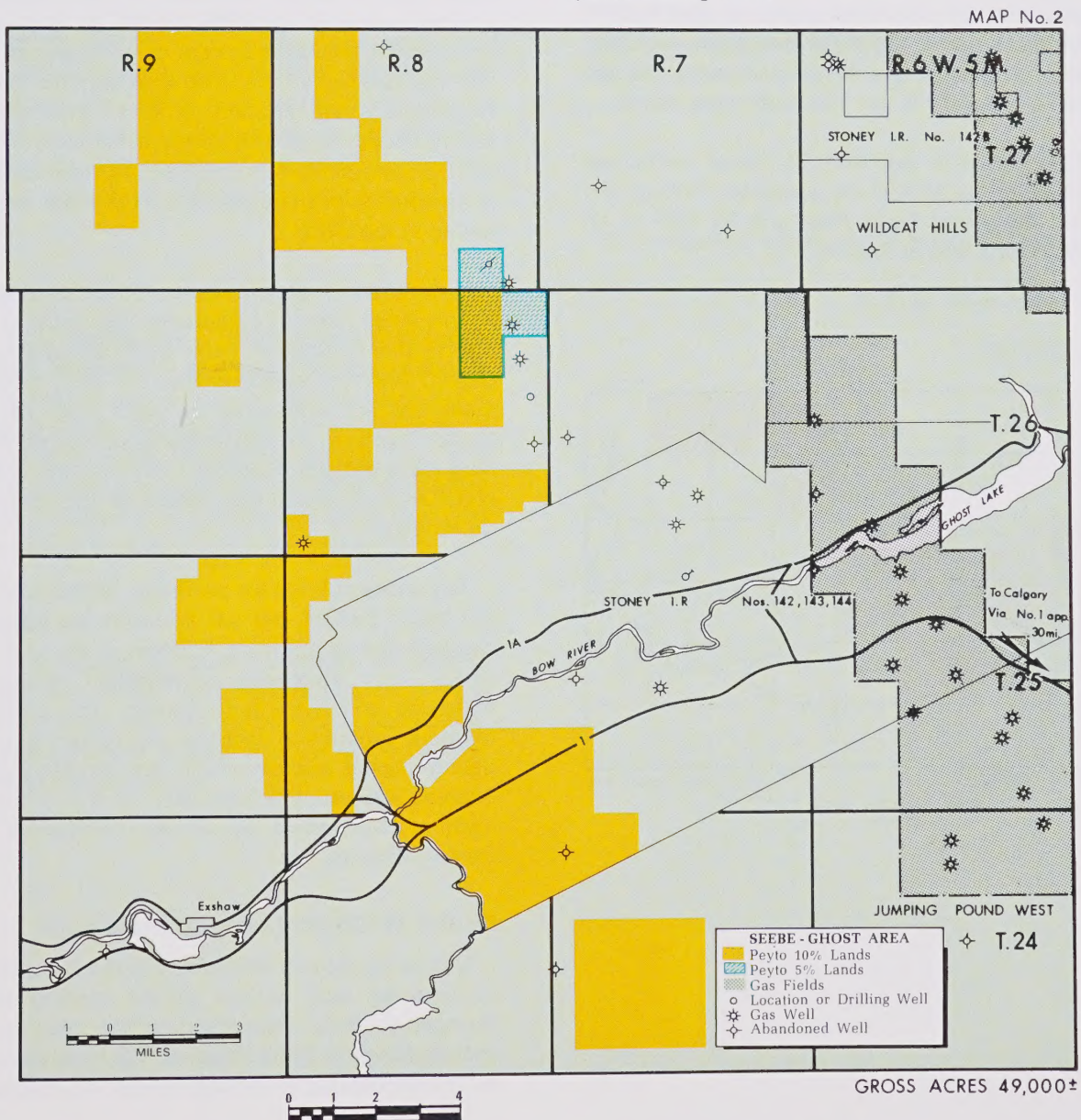
The very sizable increases in capital expenditures in this field; (11,000 feet deep wells in this area of the Alberta Foothills vary in cost from \$1.5 to \$2 million each) are being financed out of current cash flow and it is hoped no added bank borrowing will be required.

The interest in the Quirk Creek area is held via your company's 67% owned subsidiary Giant Reef Petroleum Limited.

GHOST (see map #2)

A fourth deep test was drilled and completed in Lsd. 10-2-27-8-W5M, unfortunately no commercial production was established.

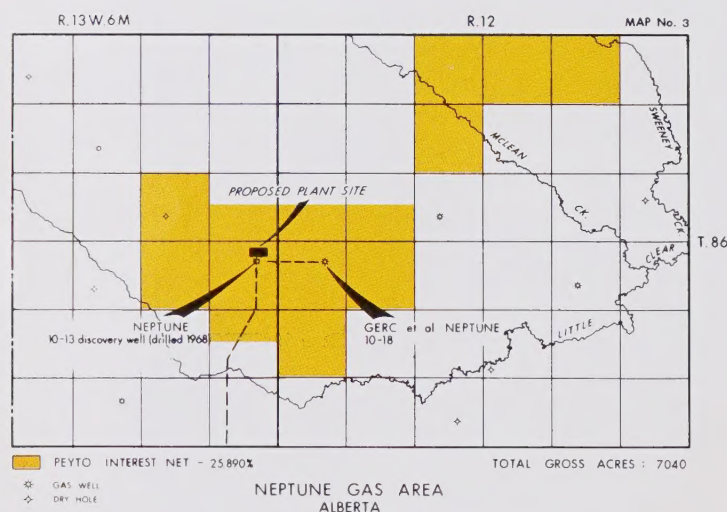
Phillips, the operator of the Seebe-Ghost properties together with another company are conducting environmental studies to determine the feasibility of jointly building a gas processing plant to process sour gas from the Morley and Ghost River areas. Tentative plant size is 80 MMcf/d with a target completion date of late 1977. Additional drilling on our lands is anticipated during 1976.



NEPTUNE (see map #3)

Gas plant construction and flowlines are 90% completed and on stream date is October 15, 1975. Your management has a special and sentimental interest in this property since it was Peyto's first and own discovery. The discovery well was completed as a natural gas well in the Halfway zone of the Triassic on November 16, 1968. As an illustration of the lead time required to place gas on production and the inflationary forces at work in our economy it might interest you to know that in 1969, \$350,000 was the estimate to build a gas plant and place the property on production. Now a mere six years later the actual cost of the same plant is \$1,600,000!! However, six years ago the best price we could obtain for the gas was 11c. In November we will obtain a price of 75c per 1000 cubic feet (Mcf).

Subsequent to our May 31 report period we participated for 50% in the successful drilling of a Viking gaswell at Fenn West and for 55% in an unsuccessful well at Retlaw.



FOREIGN EXPLORATION North Sea

Block 3/7 (see centerfold)

A recent discovery in Block 3/2 directly north of 3/7 has substantially enhanced the prospects of this block. It is expected that a well on block 3/7 will be commenced before December 31, 1975. Your company owns a 10% working interest in block 3/7.

Block 211/2

The U.K. Government refused approval of an agreement reached between Enjay Holdings Limited, operated and 40% owned by your company, and a U.K. based major oil company involving the drilling of the first well on this block. Negotiations are continuing in an attempt towards finding terms which are acceptable to the U.K. Government. A prerequisite to their consent is agreement in principle to a 51% state participation in the block.

Unfortunately governments do not participate in the initial risks of exploration but only in the profits, if any, after the exploration phase is completed. Another aspect is that the U.K. government has not elaborated on what state participation involves, thereby making economic planning more difficult. Hopefully negotiations will be concluded to enable exploration of this block to go forward.

The entire outlook for profitable participation in the North Sea oil and gas activities has become clouded due to galloping inflation in the U.K. together with increasing government restrictive measures and State participation. The costs of offshore production facilities are requiring staggering capital outlays which are threatening to become beyond the capability of the industry, making involvement by smaller companies extremely difficult.

BERRY WIGGINS (see centerfold map)

Due to the economic malaise in the U.K., stock markets as well as the pound sterling have slumped severely, thus affecting the value of our shareholdings in Berry Wiggins. We have reduced our shareholdings to 146,000 shares. An extensive

drilling program in which Berry Wiggins participates has finally commenced. The first well 21/7 in this program was dry. The next well in either 15/8 or 16/26 will be commenced in November.

TUNISIA

A second well is expected to be drilled early in 1976 on the 1.5 million acre concession offshore Tunisia. The first well drilled to a depth of 15,170 feet was unsuccessful. Another company has an option to assume our share of the cost of this second well in order to earn 50% of your company's 6.6% interest in a part of this concession.

GAMBIA

Our 5% interest in this 1.5 million acre offshore concession is being maintained with efforts directed towards having others drill a well on these lands. The results of a recently completed seismic rework of additional data are encouraging.

U.S.A.

A 10% interest in a sizable geological and geophysical exploration program offshore California was obtained with a view to participating in the upcoming U.S. Federal lease sale in this area. A total of 3000 miles of offshore seismic data was purchased and it is expected that other companies will join in bidding on a number of tracts expected to be posted for sale towards the end of 1975.

TURKEY

The company operated Manavgat #1 well in Turkey was drilled and abandoned at a total depth of 7503 feet. No hydrocarbon encouragement was evident and our interest in the concession was terminated.

ANNOUNCEMENT

Your Board of Directors has with much regret accepted the resignation, for personal reasons, of Mr. W. Wolodarsky, President and co-founder of the company. He will, however, be available from time to time in a consulting capacity and will continue as a director.

Mr. R. T. M. Vanderham has been appointed to succeed Mr. Wolodarsky as President and Mr. K. Moore will serve as Vice-President in charge of exploration. Mrs. J. Moorish has been appointed Assistant-Secretary.

Your Board wishes to thank the company's employees for their efforts and cooperation without which your company's progress would not have been possible.

Submitted on behalf of the Board of Directors.

R. T. M. VANDERHAM,
PRESIDENT

 Peyto et al Lands

 Berry Wiggins Lands





Peyto Oils Ltd.

and Subsidiaries

Consolidated Balance Sheet May 31, 1975 (with comparative figures for 1974)

ASSETS

Current assets:

Cash	\$ 79,362	48,058
Deposit receipts, including accrued interest	2,383,778	2,429,962
Accounts receivable	548,514	107,167
Total current assets	<u>3,011,654</u>	<u>2,585,187</u>

Property, plant and equipment (Notes 1, 2 and 4):

Cost	4,371,424	3,998,223
Less accumulated depletion and depreciation.	881,072	639,518
	<u>3,490,352</u>	<u>3,358,705</u>

Other assets:

Investments, at cost (quoted market value \$428,992; 1974 - \$753,818 (Note 3))	453,998	453,998
Other investments, at cost less amounts written off (no quoted market value)	22,805	15,313
Refundable deposits	14,247	14,247
Incorporation costs	9,238	9,238
	<u>500,288</u>	<u>492,796</u>

	<u>\$ 7,002,294</u>	<u>6,436,688</u>
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See accompanying notes.

LIABILITIES

	<u>1975</u>	<u>1974</u>
Current liabilities:		
Accounts payable and accrued liabilities.	\$ 548,027	60,755
Current portion of bank loan.	100,000	75,000
Total current liabilities	<u>648,027</u>	<u>135,755</u>
 Bank loan, net of current portion (Note 4)	 <u>370,000</u>	 <u>604,000</u>
 Minority interest in subsidiary company	 <u>233,184</u>	 <u>153,861</u>
 Deferred income taxes (Notes 1 and 7)	 <u>25,003</u>	 <u>-</u>
 Shareholders' equity:		
Capital stock (Note 6):		
Shares without nominal or par value. Authorized		
6,000,000 shares; issued 2,831,383 shares	6,222,010	6,222,010
 Deficit.	 <u>495,930</u>	 <u>678,938</u>
	<u>5,726,080</u>	<u>5,543,072</u>
	<u>\$ 7,002,294</u>	<u>6,436,688</u>

Approved on behalf of the Board:

_____, R. T. M. VANDERHAM, Director

_____, W. WOŁODARSKY, Director

See accompanying notes.

Peyto Oils Ltd.

and Subsidiaries

Consolidated Statement of Earnings Year ended May 31, 1975

(with comparative figures for 1974)

	1975	1974
Revenue:		
Oil and gas	\$ 913,757	521,113
Interest earned	238,933	117,868
Management and other income	119,111	33,129
	<u>1,271,801</u>	<u>672,110</u>
Expenses:		
Operating	240,549	168,787
Lease rentals on non-producing properties	45,718	72,508
General and administrative	165,680	160,209
Interest — bank loan	66,901	66,411
Depletion	158,201	124,847
Depreciation	87,411	99,739
Dry holes and abandonments	262,587	262,572
Loss (gain) on sale of properties and investments	(1,245)	12,023
	<u>1,025,802</u>	<u>967,096</u>
Earnings (loss) before income taxes, minority interest and extraordinary item	<u>245,999</u>	<u>(294,986)</u>
Income taxes (Note 7):		
Deferred income taxes	165,525	-
Province of Alberta Small Explorers Credit	47,721	-
	<u>117,804</u>	<u>-</u>
Net earnings (loss) before minority interest and extraordinary item	<u>128,195</u>	<u>(294,986)</u>
Minority interest in earnings (loss) of subsidiary	<u>57,048</u>	<u>(3,103)</u>
Net earnings (loss) before extraordinary item	<u>71,147</u>	<u>(291,883)</u>
Extraordinary item:		
Reduction of deferred income taxes resulting from application of exploration and development expenses net of minority interest share in the amount of \$28,661	111,861	-
Net earnings (loss)	<u>\$ 183,008</u>	<u>(291,883)</u>
Net earnings (loss) per share:		
Before extraordinary item	\$ 0.02	(0.10)
Extraordinary item	0.04	-
	<u>\$ 0.06</u>	<u>(0.10)</u>

See accompanying notes.

Peyto Oils Ltd.

and Subsidiaries

Consolidated Statement of Changes in Financial Position

Year ended May 31, 1975

(with comparative figures for 1974)

	<u>1975</u>	<u>1974</u>
Working capital was provided from:		
Net earnings (loss) before extraordinary item	\$ 71,147	(291,883)
Add items not affecting working capital, principally depletion, depreciation, dry holes and abandonments and deferred income taxes	<u>729,527</u>	<u>496,078</u>
Working capital provided from operations	800,674	204,195
Issue of capital stock	-	2,212,500
Proceeds on sale of property, plant and equipment	<u>13,051</u>	<u>5,415</u>
	<u>813,725</u>	<u>2,422,110</u>
Working capital was used for:		
Property, plant and equipment	659,144	538,648
Increase in other assets	-	35,220
Decrease in long-term debt.	234,000	28,000
Purchase of additional shares of a subsidiary	<u>6,386</u>	<u>5,172</u>
	<u>899,530</u>	<u>607,040</u>
Increase (decrease) in working capital	(85,805)	1,815,070
Working capital, beginning of year.	<u>2,449,432</u>	<u>634,362</u>
Working capital, end of year	<u>\$ 2,363,627</u>	<u>2,449,432</u>

Consolidated Statement of Deficit Year ended May 31, 1975

(with comparative figures for 1974)

	<u>1975</u>	<u>1974</u>
Deficit, beginning of year	\$ 678,938	387,055
Net earnings (loss) for year	<u>183,008</u>	<u>(291,883)</u>
Deficit, end of year.	<u>\$ 495,930</u>	<u>678,938</u>

See accompanying notes.

Notes to the Consolidated Financial Statements May 31, 1975

1. Accounting Policies:

Principles of Consolidation:

The consolidated financial statements include the accounts of all wholly-owned subsidiary companies and a 66% held subsidiary, Giant Reef Petroleum Limited. During the year the company acquired approximately 1% of the outstanding shares of Giant Reef Petroleum Limited.

The excess of the purchase price of the shares of Giant Reef Petroleum Limited over the underlying net book value, at dates of acquisition, has, on consolidation, been added to the cost of developed oil and gas properties and is being depleted on the unit of production method.

Petroleum and National Gas Properties:

Under the conventional system of accounting as used by the company (as opposed to the "full cost" method) all costs relative to exploration for and development of petroleum and natural gas whether productive or non-productive are initially capitalized. The cost of non-producing properties, including development and exploration cost thereon, less any proceeds on disposal, are charged against earnings in the year of disposal, abandonment or surrender. Costs pertaining to producing properties are depleted on a unit of production method based on estimated reserves. Carrying costs on undeveloped properties are charged against earnings in the year incurred.

Depreciation:

Prior to 1975, the company depreciated lease and well equipment on the declining balance method at an annual rate of 30 percent. Effective June 1, 1974 the company adopted the composite unit of production method for depreciating lease and well equipment. The effect of this change was to decrease depreciation expense by \$40,320, increase deferred income taxes by \$12,000 and increase net earnings by \$28,320.

Gas plants are being depreciated on the declining balance method at an annual rate of 5 percent, which rate is estimated to amortize the costs over the useful lives of the plants.

Income taxes:

The company follows the tax allocation basis of accounting for all timing differences between net earnings and taxable income.

2. Property, plant and equipment:

	1975		1974	
	Cost	Accumulated depletion and depreciation	Cost	Accumulated depletion and depreciation
Developed oil and gas properties and equipment thereon	\$ 2,757,164	652,581	2,405,782	467,033
Gas plant	1,120,131	228,491	985,266	172,485
Undeveloped oil, gas and mineral properties . . .	494,129	-	607,175	-
	<u>\$ 4,371,424</u>	<u>881,072</u>	<u>3,998,223</u>	<u>639,518</u>

3. Investments:

The shares of Barry Wiggins & Co. Ltd., a United Kingdom public company are carried at a cost of \$429,197 in the accompanying balance sheet and at May 31, 1975 the market value was \$390,980 (1974 - \$678,000). Subsequent to May 31, 1975 the company sold approximately a third of these shares with the proceeds exceeding the original cost.

4. Bank loan:

Although the bank loan is subject to call on demand, under the agreed terms of repayment approximately \$100,000 will be repaid within the next twelve months. The loan is secured by an assignment of certain interests in developed properties and accounts receivable of a subsidiary company.

5. Capital stock:

During the year the company granted to certain employees options to purchase 25,500 shares of its capital stock.

The options are exercisable one fifth each year on a cumulative basis at a price of \$2.485 per share, commencing September 5, 1974 and expiring on September 5, 1977 or 60 days after termination of employment which ever comes first. No options had been exercised at May 31, 1975.

The company has also granted an option to purchase 25,000 shares of its capital stock at \$9.00 per share. This option expires November 30, 1975.

6. Remuneration of Directors and Officers:

The aggregate remuneration paid to senior officers (as defined by The Companies Act, Alberta, which term includes the five highest paid employees of the company) during the year amounted to \$97,000 (1974 - \$84,000). No remuneration was paid to directors as such.

7. Income taxes:

At May 31, 1975 the following amounts remain to be carried forward and applied against future taxable income to the maximum amounts permitted annually under the Income Tax Act.

Drilling, exploration and lease acquisition costs to May 6, 1974.	\$ 1,750,178
Cumulative Canadian exploration expenditures	\$ 45,827
Cumulative Canadian development expenditures	\$ 165,218
Undepreciated capital cost.	\$ 1,065,155

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Peyto Oils Ltd. and subsidiaries as of May 31, 1975 and the consolidated statements of earnings, deficit and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiaries as of May 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles which except for the change in method of calculating depreciation as more fully explained in note 1, have been applied on a basis consistent with that of the preceding year.

Calgary, Alberta
August 7, 1975

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

